GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

STARRED QUESTION NO:54
ANSWERED ON:03.03.2005
NEW OIL PRICING POLICY
Suman Shri Ramji Lal

Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether petroleum products like petrol, diesel, L.P.G. etc. are being sold to the consumers in the country on the basis of import price, despite the fact that there is huge domestic investment in the refineries in the country;

(b) if so, the names of the beneficiaries of such huge domestic investment;

(c) the reasons for not percolating these benefits down to the common consumers in the country;

(d) whether the Government would consider to formulate a new oil pricing policy to safeguard the interests of the consumers in the country; and

(e) if so, the details thereof?

Answer

MINISTER OF PETROLEUM & NATURAL GAS AND PANCHAYATI RAJ (SHRI MANI SHANKAR AIYAR)

(a) to (e): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (e) OF THE LOK SABHA STARRED QUESTION NO. 54 BY SHRI RAMJI LAL SUMAN TO BE ANSWERED ON 3RD MARCH 2005 REGARDING NEW OIL PRICING POLICY.

(a) to (e): In view of our high oil import dependence, at present around 71%, volatility in international oil markets decisively impacts the price at which crude oil is procured by refineries. Margins, including refinery margins, are a relatively small percentage of the cost of producing petroleum products. Oil Marketing Companies (OMCs) having refineries market their products direct to consumers but are able to realize full import parity prices only on non-sensitive petroleum products like Aviation Turbine Fuel (ATF). On consumer-sensitive products like Motor Spirit (Petrol), High Speed Diesel, Domestic LPG and PDS Kerosene, prices are fixed in consultation with Government on the principle of equitable burden sharing between oil sector PSUs, Government and consumers. In consequence, OMCs have to bear massive under-recoveries relative to import parity prices. To the extent that public sector OMCs have to procure sensitive petroleum products from private refineries, there is, of course, a gap between import parity prices realized by the refinery and the price realized by the OMC from consumers, but the quantities involved constitute a relatively small proportion of total turnover.

The following measures have inter alia been taken to insulate consumers from the full impact of high international prices;

(i) Effective 1.3.2005, the customs duty has been reduced on crude from 10% to 5%; on PDS Kerosene and Domestic LPG from 5% to nil; and on other products from 15%/20% to 10%. This reduction would have a downward pressure on the refinery gate prices of petroleum products.

(ii) Effective 1.3.2004, excise duty on PDS Kerosene and Domestic LPG has been reduced from 12% and 8% respectively to nil.

(iii) PDS Kerosene and Domestic LPG are subsidized products. In addition to Government subsidy, public sector oil marketing companies (OMCs) have been sharing the burden by not passing the full increase in the international prices in the domestic consumer prices of these products.

(iv) As regards petrol and diesel, although a price band mechanism, with an appropriate band ceiling, has been prescribed for OMCs, domestic diesel prices have been frozen since midnight of 4/5 November 2004 and petrol prices since midnight of 14/15 November 2004.